

1 WASHINGTON STATE INSURANCE COMMISSION
2
3 PUBLIC MEETING
4 IN THE MATTER OF
5 THE PROPOSED CONVERSION OF PREMIERA BLUE CROSS
6 TO A FOR-PROFIT CORPORATION
7

8 October 15, 2002
9 at
10 Red Lion Inn
11 100 Columbia Street
12 Vancouver, Washington
13

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15
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Premera Blue Cross
Public Meeting

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P R O C E E D I N G S

(Tuesday, October 15, 2002, at 6:04 p.m.)

COMMISSIONER KREIDLER: Good evening. Welcome to this meeting. I'm Mike Kreidler, Insurance Commissioner, and joining me this evening is Mr. Jim Odiorne, Deputy Commissioner in the Office of Insurance Commissioner and Assistant Attorney General Rusty Fallis to my left.

I want to thank you for coming tonight and participating in this forum. The reason for this forum meeting tonight is that on May 30th, Premera Blue Cross notified us, me specifically, of their intent to convert from a nonprofit to a for-profit corporation. I ultimately will act as the judge as to whether that should be approved and how it would affect consumers of the State of Washington.

However, tonight we're going to -- I will refrain from talking about the merits of the proposal. My principal concerns are going to be that consumers are not harmed by a conversion and that the potential impact on Premera's solvency is not one that would hurt consumers and hurt their solvency. And in addition to that, I'm going to be obtaining an accurate valuation of Premera's assets.

1 This evening it is critical that we hear from the
2 public. This is very early in the process. We
3 anticipate that there will be another round of meetings
4 later on. However, this evening we're going to keep our
5 presentations to a minimum so that we can hear from the
6 public.

7 We're going to begin with a ten-minute presentation
8 from Deputy Insurance Commissioner Jim Odiorne followed
9 by Assistant Attorney General Rusty Fallis, who will
10 speak for ten minutes, and then for 15 minutes we're
11 going to hear from Premera Blue Cross as they describe
12 their specific proposal. Then we open it up for public
13 comment.

14 And I'm going to begin right now by turning to
15 Assist -- excuse me -- Deputy Insurance Commissioner Jim
16 Odiorne.

17 MR. ODIORNE: Thank you, Commissioner. I would
18 like to offer my thanks to you -- excuse me -- for coming
19 tonight. The Commissioner has asked me to lead the
20 review team, and your information is part of what we're
21 putting together that will help make the decision.

22 As the Commissioner indicated, Premera made the
23 filing in late May. They filed what we call a "Form A"
24 in regulatory parlance, that is, a notice of a change of
25 control whenever as much as 10 percent of a company's

1 control is changed. On average, we do two or three
2 Form A filings a year. And we have done some conversions
3 in the past, but this particular transaction is the
4 largest Form A and the largest conversion we've had to
5 deal with.

6 Within this particular Form A filing are a number of
7 different transactions. Each has to be reviewed
8 individually for compliance with the law, and then they
9 have to be reviewed as a whole. We're looking at the
10 formation of several companies, changing control of
11 several companies, internal intercompany agreements that
12 have to be approved, a number of other transactions.

13 The Commissioner's primary authority in this area is
14 the Health Carrier Holding Company Act, which is a fairly
15 new statute adopted within the last couple of years.
16 Under this act, the Form A cannot be approved without a
17 formal hearing.

18 And as the Commissioner indicated, he will act as
19 the judge in that formal hearing. And because of that
20 role, we've had to limit access to certain information
21 that will be developed within the Department and
22 presented to the Commissioner at a later time. We talk
23 about walling off particular parts of the staff so that
24 they can help the review team develop a recommendation
25 for the Commissioner at a later time.

1 We've retained a number of consultants to help us
2 review this transaction. We have experts in the area of
3 investment banking, actuarial analysis, accounting and
4 tax matters, and legal analysis. Each of the apparent
5 successful bidders has had prior experience in at least
6 one conversion. We met with them yesterday, and they've
7 all worked together. They all have other experience
8 under their belt, which will actually make the review go
9 faster.

10 We will work very closely with those consultants to
11 develop a recommendation for the Commissioner at the
12 final hearing. We have asked each of the consultants to
13 prepare an executive summary of their options and
14 opinions, and those will be made available to the public
15 as soon as we can.

16 At one point we were talking about a time line that
17 called for conclusion of this process before the end of
18 December of this year. We've come to find that that time
19 line just will not work. We have not been able to reach
20 a final contract yet with the consultants. They need
21 time to do their work and do it very well. We told them
22 all yesterday, "Your work's not done until we think it's
23 a good product, so you may have to go back a couple
24 times."

25 But with that, we're looking at getting at least a

1 preliminary report from the consultants early in
2 December. We'll follow that with another round of public
3 forums such as this after the public's had an opportunity
4 to look at what the consultants produce. And then at a
5 later point, after there's been an opportunity for
6 prefiled testimony, a final hearing will be held.

7 It's our intention to make as much information as
8 possible public. Part of that is that everything that we
9 can is put on our web site. It's my understanding that
10 Premera has a goodly portion of this on their web site.
11 And we will add to it as we go. The testimony from the
12 three prior forums like this is either on the web site or
13 soon will be. I know two of them were and maybe the
14 third one is already. The prefile testimony will go
15 there. Everything that we can legally release will go on
16 the web site so that the public has access to it.

17 Our consultants, in fact, yesterday suggested that
18 there ought to be a library all over the state for all of
19 this information. I'm not sure that's going to happen,
20 but we will work within the bounds that we can to make
21 sure that you have information and you can come back with
22 additional comments for us.

23 Thank you for coming tonight. Thank you,
24 Commissioner

25 COMMISSIONER KREIDLER: Thank you, Mr. Odiorne.

1 Now I turn to Assistant Attorney General Rusty Fallis.

2 MR. FALLIS: Thank you, Commissioner Kreidler.

3 On behalf of Attorney General Gregoire, I want to
4 extend her regrets at her inability to be here tonight.
5 She had hoped to attend, but she's had to spend most of
6 the last couple weeks out of the state in connection with
7 negotiations over some multistate litigation which was
8 finally settled, and which you may have read about in the
9 last couple of days.

10 I'm going to spend just a few minutes describing the
11 primary roles that the Office of the Attorney General
12 will play in connection with the proposed conversion.
13 There are three principle roles, and to a greater or
14 lesser degree, these all will be going on at the same
15 time.

16 One role will be to serve as the legal advisor to
17 the Office of the Insurance Commissioner. As is the case
18 with other state agencies, the Commissioner's Office
19 receives legal counsel and litigation support from the
20 Attorney General's Office. We have lawyers on our staff
21 who will be available to provide legal advice to
22 Commissioner Kreidler in his role as the final
23 decision-maker with respect to those things that are
24 within his jurisdiction. We have a separate group of
25 lawyers who will be available to assist the

1 Commissioner's staff in the adjudicative hearing that
2 Deputy Commissioner Odiorne referred to.

3 The separation of our staff parallels the
4 structuring of the Commissioner's staff, and it reflects
5 the requirement from the State Administrative Procedure
6 Act that the final decision-maker in an administrative
7 hearing and that decision-maker's lawyer be different
8 from the agency staff members and lawyers who are
9 participating as parties and advocates in that hearing.

10 A second role that the Attorney General's Office
11 will play will be to review potential antitrust issues
12 and anticompetitive effects of the proposed conversion.
13 The Insurance Holding Company Act specifically calls for
14 the Attorney General's Office and the Commissioner's
15 Office to confer on those issues.

16 There is a group of lawyers in my office who are
17 dedicated to addressing antitrust issues, and they will
18 review the proposed conversion and make their findings
19 and their concerns, if any, known to the Commissioner's
20 staff. Depending on what they conclude, it's possible
21 that those lawyers may seek to intervene formally as a
22 party in the adjudicative hearing.

23 The third primary role that the Office of the
24 Attorney General will play will be to review what I'll
25 call the foundation-related issues. Premera's proposed

1 conversion involves, among other things, the dissolution
2 of certain nonprofit corporations, the creation of some
3 new nonprofit corporations, including a couple of
4 charitable organizations, and through a series of
5 transactions, the endowment of those charitable
6 organizations for the purpose of carrying on certain
7 healthcare-related initiatives.

8 Under the Washington Nonprofit Corporation Act,
9 where there is a proposal to dissolve a corporation, and
10 that corporation holds assets which by law must be used
11 only for charitable or similar public benefit purposes,
12 then Attorney General's Office must approve a plan to
13 dispose of those assets. In this case, those parts of
14 the transaction that involve the dissolutions of the
15 nonprofit corporations and the establishment of successor
16 charitable organizations will require the approval of the
17 Attorney General's Office.

18 Our review in this respect will consist primarily of
19 looking at two primary issues. One will be the valuation
20 of assets, in other words, making sure that the amount of
21 the endowment that's created, if there is to be a
22 conversion, is appropriate.

23 The second major area of inquiry will be to look at
24 the structure and governance of the charitable
25 organizations and the related other nonprofit

1 organizations that are created, to make sure that they
2 are truly independent and, therefore, capable of carrying
3 out of the public benefit purpose that the law requires
4 them to carry out.

5 I want to mention just a couple of logistical items.
6 The Attorney General's Office has a phone line available
7 through which you can leave messages for us with respect
8 to this conversion. If you have comments or concerns or
9 there's information you think that we ought to be
10 considering in connection with our role in reviewing the
11 conversion, then you can leave a message 7 days a week,
12 24 hours a day, and that number is (360)586-8813. We
13 also have an e-mail line if you'd rather use e-mail to
14 communicate with us, and that e-mail address is
15 premera@atg.wa.gov.

16 Thank you very much for coming.

17 COMMISSIONER KREIDLER: Thank you, Assistant
18 Attorney General Rusty Fallis.

19 Now I'm going to ask, as I mentioned before, Premera
20 Blue Cross to describe their conversion proposal in 15
21 minutes, and I would like to call on the chief executive
22 officer of Premera Blue Cross, Mr. Gubby Barlow, who I
23 understand may be calling on Mr. Milo, then, to also join
24 in.

25 MR. BARLOW: Good evening, Commissioner

1 Kreidler, Deputy Commissioner Odiorne, Assist Attorney
2 General Fallis. Thank you for this opportunity to
3 discuss our proposal to raise capital as a public
4 company.

5 In the four months since we announced our proposal
6 last spring, many people have shared with me their
7 support and also their concerns. People ask: Why does
8 Premera want to convert? Will Premera focus on Wall
9 Street instead of its members? Will being for-profit
10 cause premiums to rise or squeeze payments to physicians
11 and hospitals? Will Premera executives get huge success
12 bonuses when the company converts? Will we remain in
13 rural areas of the state? Does Premera want to be taken
14 over by an out-of-state insurer? And if not, how will we
15 prevent it from happening?

16 I've also seen great interest in our proposal to
17 dedicate 100 percent of the initial stock of the fund --
18 of the company to fund health initiatives in Washington
19 and Alaska. Many people have strong opinions about how
20 those funds should be spent, who should control the
21 charities, and some are concerned about an accurate
22 valuation of the company. These are important questions
23 that deserve thorough public discussion, and I'm
24 confident that we can address them all.

25 A bit about our company. Premera Blue Cross is a

1 nonprofit Washington corporation, one of the largest
2 private corporations in Washington, with 3,000 employees
3 serving over 1.4 people in three states. Our roots go
4 back to 1933 in Washington, 1957 in Alaska, and 1954 in
5 Oregon. This year we're starting a new affiliate in
6 Arizona.

7 So what is Premera trying to achieve as a business?
8 I believe that people buy health insurance for one
9 primary reason: Peace of mind. And that's our mission,
10 providing peace of mind to our members about their
11 healthcare coverage. For us, delivering on that message
12 means bringing financial stability; providing broad
13 choices of products, physicians, hospitals; providing
14 excellent service; and supporting growth. Growth not
15 only responds to customer needs; it spreads our operating
16 costs over a larger base to the benefit of all of our
17 customers.

18 And because healthcare is local, we believe we can
19 best serve our members by being an independent
20 Washington-based company. This has been our strategy.
21 It remains our strategy, whether we are for-profit or
22 not-for-profit.

23 So why do we want to convert? Because going public
24 creates more resources to serve our mission better. This
25 is a highly capital-intensive business. We need capital

1 to maintain our insurance reserves, to invest in new
2 technologies and products, and to serve more members. As
3 a nonprofit, our sources of capital are effectively
4 limited to operating profits. Those operating margins
5 are rather slim, last year about 1 percent of each
6 premium dollar.

7 Now, we have explored other sources of capital but
8 have rejected them. For example, another nonprofit
9 Washington corporation health plan explored merging last
10 year with a large health plan in Chicago. That option is
11 not consistent with Premera's desire to remain
12 independent and headquartered right here in Washington.

13 I would like to address some of those concerns that
14 I've heard. As for the influence of Wall Street, any
15 company that focuses on stockholders first and its
16 customers and other stakeholders second is doomed to fail
17 on both fronts. Our mission and dedication to our
18 members remains the same, whether we are publicly held or
19 not-for-profit.

20 Second, going public will not increase premiums or
21 reduce fees for physicians and other providers. Today we
22 are operate in a very competitive market, competing
23 against for-profit companies and not-for-profits. We
24 charge our customers the market price. We pay our
25 physicians and hospitals what the market demands.

1 Clearly those market forces are independent of and
2 unaffected by our capital structure.

3 Third, some conversions elsewhere have resulted in
4 large success bonuses for executives. There will be no
5 success bonuses if Premiera converts. In the future,
6 stock ownership plans may be offered to certain
7 employees. But our board has yet to address this issue,
8 and we will submit any such plan to state officials
9 before you make a decision on our conversion.

10 Fourth, with some conversions in other states, there
11 has been debate of the values of the companies. By
12 dedicating 100 percent of the initial stock outright to
13 health initiatives, the full worth of the company,
14 including goodwill, is reflected. The stock market,
15 which is the most efficient and effective arbiter of
16 value that we know of, will determine what the value of
17 that stock is.

18 Five, there are no plans to sell this company, and
19 we remain committed to rural areas. Premiera has an
20 independent board of respected community, medical, and
21 business leaders. Our board has repeatedly determined
22 that we remain independent and based in Washington
23 because that is how we can serve our members best.
24 That's why our conversion plan incorporated all
25 antitakeover provisions available under Washington law.

1 Further, the state's Holding Company Act provides
2 additional protections. In the unlikely event that our
3 board determined to sell, the Insurance Commissioner
4 would be required to scrutinize any proposed sale with
5 the same due diligence as a conversion.

6 As for our commitment to rural areas, our record
7 speaks for itself. Premiera's family of companies
8 currently serves every Washington county. We have
9 remained in many counties after other nonprofit and
10 for-profit companies have left. When we have stopped
11 selling products in the past, we have done so only after
12 careful consideration. For example, we stopped selling
13 Medicare Plus Choice last year; we did this because
14 federal funding was inadequate to cover all costs,
15 including fees found acceptable by physicians and
16 hospitals.

17 We believe that strategically a statewide network of
18 physicians and hospitals and a statewide presence,
19 including our rural areas, is a valuable competitive
20 advantage that we wish to maintain into the future.

21 In summary, I believe this conversion produces three
22 great wins: It's a win for our members through increased
23 capital to serve them better; it's a win for the state
24 through a growing company supporting local employment and
25 the tax base; and it's a win for the people of Washington

1 and Alaska through a substantial pool of funds devoted to
2 health initiatives.

3 Thank you very much. Now Yori Milo, one of our
4 executive officers, will add some details about our
5 proposal

6 COMMISSIONER KREIDLER: Thank you, Mr. Barlow.

7 Mr. Milo?

8 MR. MILO: Thank you.

9 Mr. Barlow explained why Premera wants to change
10 cooperate structure, so it can access capital. I'm going
11 to be talking more specifically about what we're
12 proposing to do as presented in our Form A filing that's
13 on record in the Office of the Insurance Commissioner,
14 that is, how we propose to reorganize to operate as a
15 stock company, as well as talking about the charitable
16 organizations we propose to establish to support the
17 health initiatives, which Mr. Barlow discussed.

18 To do that, I would like to take a look at the
19 Premera family of companies as it's organized today, and
20 then take a look at the Premera family of companies as it
21 would look after the proposed conversion. On the podium
22 we have handed out, and reflected on the screen, is a
23 chart reflecting the current Premera structure.

24 It's a mix of both nonprofit and for-profit
25 organizations today. The green designates current

1 companies which are in nonprofit form; the blue
2 designates companies which are in for-profit form. For
3 example, Premera Blue Cross provides health insurance
4 coverage in Alaska and Washington, and it is, and has
5 always been, a nonprofit corporation.

6 By contrast, at the lower right-hand corner of the
7 chart, you see LifeWise of Oregon. It also sells health
8 insurance. It's a for-profit company and it has, and
9 always has been, a for-profit company. Similarly States
10 West Life on the left-hand side of the chart, also a
11 for-profit corporation. It's a life and disability
12 insurer that sells products in Washington, Alaska, and
13 Oregon, and is licensed in a number of other states as
14 well.

15 So that brings a question: What is -- what are the
16 key differences and what are the some of the similarities
17 between for-profits and nonprofits? A key difference is
18 share ownership. For-profit corporations have stock
19 owners. Stock owners obtain their shares by paying money
20 to the corporation, and that money goes to serve the
21 capital needs and operating needs of a corporation. By
22 contrast, nonprofits do not have shareholders, and as you
23 can see, Premera in its nonprofit form has no stock
24 owners.

25 While there are differences between nonprofit --

1 for-profits and nonprofits, there are some important
2 similarities between for-profits and Premera as it's
3 organized today. Contrary to common misperception,
4 Premera is not a tax-exempt charitable organization. It
5 pays both federal and state taxes. In 2001 it paid over
6 \$37 million to the State of Washington in taxes, the same
7 amount it would have paid had it operated in 2001 in
8 for-profit form. Similarly Premera paid over \$10 million
9 in federal taxes in 2001.

10 There are also similarities in the way for-profits
11 and nonprofits are regulated as insurers. Premera is
12 subject to the jurisdiction of the Office of the
13 Insurance Commissioner and regulated by the Insurance
14 Code and regulations promulgated by the Office of the
15 Insurance Commission. That applies today; it would apply
16 if Premera operated in for-profit form.

17 Let's take a look at what the Premera family of
18 companies would look like after the proposed
19 reorganization. As you can see on the chart, the
20 companies in blue on the lower portion of the chart is
21 the same family of companies as was shown on the
22 preceding chart, but now designated in blue to show that
23 they're organized in for-profit form. That would be
24 accomplished through a series of transactions that are
25 described in detail on the Form A filing on file in the

1 Office of the Insurance Commissioner, those transactions
2 being the subject approvals of the Office of the
3 Insurance Commissioner and Attorney General.

4 On the chart you see several new organizations
5 designated in green. As Mr. Barlow said, 100 percent of
6 the initial stock would be dedicated to support health
7 initiatives in Alaska and Washington. That would be done
8 by transferring 100 percent of the initial stock of the
9 public company, New Premera, transferring it to a
10 charitable foundation, shown on the chart as a foundation
11 shareholder.

12 The purpose of the foundation shareholder is to hold
13 and sell that stock and to assure that the proceeds are
14 used to support Washington and Alaska health initiatives.
15 That would be done by transferring the proceeds of the
16 sale of stock to two new organizations, a Washington
17 charitable organization, shown on the top left of the
18 chart, and an Alaska charitable organization, the
19 distribution to be done in an allocation to be agreed
20 between the states of Washington and Alaska.

21 The two new charitable organizations which would
22 hold the proceeds and conduct the charitable activities
23 would be completely independent of Premera. Premera
24 would have no role on the board of directors of those
25 organizations or any contractual relationship with those

1 organizations.

2 The purposes of those organizations are proposed in
3 our Form A filing. Some of the purposes, for example,
4 that Premera has proposed is to address unmet healthcare
5 needs of the uninsured populations of these states; to
6 educate physicians, nurses, and other caregivers who are
7 committed to underserved areas; and to generally create a
8 legacy endowment to improve the health of the local
9 communities in these states.

10 The Form A filing also recognizes that we're looking
11 to state officials to help finalize the purposes of these
12 charitable organizations, and ask that state officials
13 seek input from the community at large to help determine
14 the final purposes of these charitable organizations.

15 With that, we talked about the charities. As
16 Mr. Barlow said, the purposes of that reorganization is
17 so that Premera and the Premera family of companies can
18 access the equity markets to raise capital to support
19 their operating needs and capital reserves. That would
20 be done by New Premera issuing and selling new stock in
21 the public markets, the proceeds of which would go to
22 fund New Premera in its operations.

23 With that, I would like to thank the Office of the
24 Insurance Commissioner and Office of the Attorney General
25 for giving us the opportunity to make this presentation.

1 And that concludes our presentation. Thank you.

2 COMMISSIONER KREIDLER: Thank you very much,
3 Mr. Milo.

4 Now we are at the position or point in the meeting
5 where we have a chance to hear from the public. Let me
6 just outline some brief rules for that purpose. As we
7 have this desk right in front of us, I would ask you,
8 when I call your name, to come forward and state your
9 name clearly. If you would even be kind enough to spell
10 your last name, it would be of great assistance to the
11 court reporter who is recording the information. If you
12 can speak slowly, that will be very much appreciated,
13 particularly by her in making an accurate record of this
14 meeting and the questions and comments that you have to
15 offer.

16 As you come forward, we are going to ask you -- and
17 when you begin to speak, if you have prepared comments,
18 if they're extensive, you may want to summarize them.
19 You can give those over here to our timekeeper. We would
20 allocate up to five minutes for speaker. The purpose for
21 that is to make sure that each individual has an
22 opportunity to offer their comments.

23 We've designed these forums very specifically to be
24 very early in the process so that we have an opportunity
25 to hear from the public. There will be further

1 opportunity to hear from individuals once we, as
2 Mr. Odiorne pointed out, have the expert information that
3 will be available to the public, and we would initiate
4 that second round of public hearings.

5 I am not -- we are not, I should point out, prepared
6 to answer questions, engage in rebuttals, or debate this
7 evening. We have many questions ourselves. Our purpose
8 here is to hear your questions and comments as you -- as
9 we begin the process of this review.

10 So I'm going to begin the meeting now, and I have a
11 few comments I'll offer at the conclusion of public
12 testimony and begin right -- first person who signed up
13 indicating at least with a question mark -- and maybe
14 you'd like to pass or come forward at this time, Ian
15 Timm.

16 MR. TIMM: Commissioner Kreidler, for the
17 record, my name is Ian Timm. I'm the executive director
18 of the Oregon Primary Care Association. I signed in with
19 a question because it was unclear if you were expecting
20 testimony pro or con at this point in the proceedings.
21 But I -- from what I could gather in reviewing some of
22 the documents available on your Web page, I did have some
23 questions, and I think the presentation we just heard put
24 a clearer focus on some of my questions.

25 The structure proposed -- well, I guess before I get

1 into the structure, I think the main question is whether
2 the conversion is in the public interest at all. And
3 the -- whether it's in the public interest or not, I
4 think they've made a good case as to why they think it's
5 in the interests of the corporation or the corporations.

6 But I don't think they've really made a good
7 presentation for why it's in the public interest. It
8 certainly would allow them more room to participate in
9 the capital marketplace, but I don't think I've heard a
10 good case as to why there is an unalloyed benefit to the
11 shareholders or the people seeking access to health
12 insurance in their market areas. And so I think that's
13 one question is: What is the case?

14 They did make reference to the other Blue Cross in
15 Washington seeking to merge or convert in the recent past
16 along with the Regence family of corporations. And some
17 in Oregon where that -- some of the hearings took place
18 and where I assume a decision was made not to pursue
19 that, had the interpretation that that conversion was
20 withdrawn when it became clear that the Insurance
21 Commissioner and the authorities in Oregon were expecting
22 a fair valuation, and that fair valuation to be set aside
23 into a charitable foundation. So I applaud your attempt
24 to get an independent valuation of this transaction.

25 Which leads me to a question about the structure and

1 in particular the foundation-shareholder scheme which is
2 proposed, which appears -- seems like it raises a
3 question of why that particular box is even necessary.
4 It seems to be a holding -- a holding point for the
5 assets of the existing corporations and to be controlled
6 by the existing corporations.

7 The papers I read, although I can't -- don't claim
8 to understand them thoroughly 'cause I haven't had enough
9 time to make that claim -- but it appeared that there
10 were ample provisions for how the New Premera corporation
11 would direct the foundation shareholder to act, but no
12 really real provisions for the foundation shareholder to
13 have any independent life.

14 And so it raised -- in fact, the articles and the
15 bylaws for that define the word independent as former and
16 current employees of one Premera corporation or another,
17 hardly the community standard for independent of a
18 nonprofit corporation. It's not what most people, if you
19 did a poll, would think the word independent meant, but
20 they've defined it, for their purposes, as meaning that.

21 So I think there's really no attempt to assert that
22 the proceeds from the conversion will go into an
23 independent foundation; they're going to go into a
24 something. I'm not sure what sort of foundation -- what
25 sort of standing that sort of entity might have under

1 Washington state law, but it's certainly new to me. But
2 I'm not an expert on corporate structure, but it does
3 raise some questions which, as a consumer, you may want
4 to look into.

5 And that also raises the questions of: If the
6 foundation shareholder is going to be in charge of
7 converting the shares into cash for subsequent transfer
8 to the charitable foundations, it seems like there's not
9 a -- not any clear protections for the public in those
10 conversion transactions. There's some parameters stated,
11 but it's not clear whether the incentives would be
12 aligned to sell shares high or sell them low or whether
13 there's any oversight wanted or contemplated in that
14 process, which --

15 So I think you need to assure the public that this
16 foundation shareholder is not a scheme to avoid the
17 obligations commonly assumed for the creation of a
18 foundation, when you are converting nonprofit assets to a
19 for-profit status. So I guess those are the questions I
20 have.

21 And although I understand that residents of Oregon
22 may not have much standing in this process, the nature of
23 the conversion and the size of the market share of
24 Premiera will certainly have collateral effects on the
25 health insurance marketplace in Oregon. There are many

1 markets where the people freely move back and forth
2 between the two states, and so I think that the question
3 of future corporate behavior and its effect on the
4 marketplace and access to healthcare certainly could have
5 a collateral effect on Oregonians, even though LifeWise
6 Premera in Oregon is already for-profit status.

7 COMMISSIONER KREIDLER: Thank you very much,
8 Mr. Timm.

9 Let me point out that, just by way of information to
10 you -- you can certainly step down if you would like --
11 is that part of why we're retaining the experts that
12 Mr. Odiorne described here is that, when we do another
13 round of hearings, we're going to have the analysis to
14 many of the questions you've raised.

15 But by asking the questions you've asked tonight,
16 you've helped to focus us to make sure that our experts
17 are providing us with the directed answers to the issues
18 that you've raised. So it is appreciated. It will be
19 part of the record, and it will help us. When we come
20 back with the next round, we'll have the kind of
21 information that can be much more specific in being able
22 to make sure the concerns you've raised have been
23 satisfactorily answered, or whether there are other
24 questions that might need to be asked.

25 Next person I would like to call on: Sally Timm,

1 did you wish to --

2 MS. TIMM: No, thank you. I'm fine. I came to
3 learn.

4 COMMISSIONER KREIDLER: Great.

5 I would like to call on Dr. Todd Bernstein.

6 DR. BERNSTEIN: Thank you. Commissioner
7 Kreidler, Deputy Commissioner Odiorne, and Assistant
8 Attorney General Fallis, I would like to thank you guys
9 for coming to Vancouver.

10 I'm here tonight as a private citizen, as a consumer
11 being insured by Premera, as well as by a local surgeon
12 in a small independent medical practice. And I came to
13 voice my concern.

14 I applaud the Deputy Commissioner's statement that
15 this should not be rushed and that we really need to take
16 a long, hard look at what is going on and the motives and
17 the outcomes, for we've all purchased things quickly and
18 been left with things that haven't worked for us.

19 The Washington State Medical Association has raised
20 some issues, and I've looked at those and really echoed
21 those in my own practice as certain products, like
22 Healthy Options and some of the welfare products and the
23 underserved products, have by other insurers been dropped
24 because of the difficulty in meeting expectations for
25 remunerations. And as a local practitioner, we have

1 absorbed a lot of that difficulty and a lot of that
2 shortfall.

3 And I'm concerned as insurers in general or as
4 businesses, in even a broader sense, move from a
5 not-for-profit to a for-profit format, that some of the
6 lesser fortunate and unprivileged and the welfare
7 patients may be left swinging in the breeze. We as
8 physicians went into practice and went into medicine to
9 help people, and we are shouldering more and more of the
10 difficulties of the most needy and the least financially
11 resourced patients.

12 And so I think it would be really important for us
13 all to look at this process and to see if certain
14 services or certain specialties might not, according to
15 the structure, be pushed off to the foundation to allow a
16 for-profit corporation to do just what the name states.

17 And I know that in the Commissioner's Office, and in
18 the state as a whole, we're all looking very carefully at
19 this proposal because we think, as our insurer, as
20 Premiera is a Washington company, we really want it to
21 flourish because it's an insurer that we've chosen. But
22 we also, I think, need to tread very carefully at looking
23 at the increased workload for physicians and the
24 increased workload for hospitals and increased workload
25 for the health industry in general and perhaps the

1 decreased service for those who need it most.

2 Thank you.

3 COMMISSIONER KREIDLER: Thank you, Doctor.

4 As I pointed out to Mr. Timm, and as you referenced
5 also, Doctor, on the timing issue, let me reassure you,
6 even though we put together a preliminary time schedule
7 as to how this would be completed, it was never intended
8 that this would be the final say unless we have all of
9 the information.

10 It's clear from our negotiations with the experts --
11 and the experts that Mr. Odiorne described here are ones
12 who have experience in other states, where they've gone
13 through similar conversion processes -- until we have all
14 of the information we need to make an informed decision,
15 I can assure you, no decision will be made.

16 So that timing is clearly not going to be -- the
17 preliminary schedule going to be what's going to work.
18 It's going to take longer. I wouldn't be surprised if we
19 wouldn't be able to hold the second round of hearings
20 until after the first of the year. It would be nice if
21 we could do it sooner, but we want to make sure we have
22 the right information to make the right decision.

23 Next I would like to call on Rocky Beckner.

24 Mr. Beckner passes.

25 And Jane Young.

1 MS. YOUNG: Commissioner Kreidler, my husband
2 will read our comments, which are signed by both of us.

3 COMMISSIONER KREIDLER: That would be great. If
4 you would just identify yourself, for the record.

5 MR. YOUNG: George Young, Vancouver. I'm here
6 as a consumer. Digress for a moment in history. I first
7 became customer of Blue Cross in 1951. So it's 50 years,
8 51 years.

9 With the exceptions of a couple of times in
10 corporate decisions where we were not covered under Blue
11 Cross, which I didn't have other any problem, but others
12 in the corporation did. My personal experience has only
13 been with Blue Cross satisfactory, from major to minor.

14 When I hit Medicare and I looked for the supplement
15 on the thing, I checked with the clinic's accounting
16 department, asked them who was the fairest, the best to
17 work with; they said Blue Cross. I went with Blue Cross.
18 Couple of major problems; I've been very happy about them
19 all through.

20 That said, we are against the conversion. We
21 recommend -- we remember reading that there are in excess
22 of 1500 health insurance organizations in the United
23 States, each with a set of senior managements, each
24 enjoying the sundry perks of their positions. We have
25 the opinion that our total health care -- total health

1 disaster's only answer is a program comparable to
2 Medicare.

3 If the conversion is completed, we will once again
4 see a bleeding off of dollar assets being used for
5 management's personal benefit, not to the subscribers.
6 As retirees from the corporate world, we have observed
7 and been adversely affected by corporate chicanery.
8 Rather than a long litany of detailed abuses, we call
9 your attention to the current problems attendant to
10 Enron, Arthur Anderson, Qwest, WorldCom, ad infinitum.
11 We planned to attend this meeting (inaudible) plan
12 believes.

13 My concern is what is going to happen in the future.
14 Blue Cross has a fantastic record, as far as we're
15 concerned; very happy with it. But what's going to
16 happen in the future? And to take a look at what's
17 happening on Wall Street, I don't think any more needs to
18 be said.

19 Incidentally, this has gone via e-mail to your
20 Olympia office.

21 COMMISSIONER KREIDLER: Great. Thank you very
22 much, Mr. Young.

23 If there's an individual who, after listening to the
24 testimony, does desire to testify this evening, if you
25 could step outside. Diane, standing right over here,

1 would be glad to take your name so we make sure we call
2 on you.

3 Next person on the list here is Sil Arata.

4 MR. ARATA: I would pass, Commissioner. I did
5 want to clarify one piece. And that is, on your second
6 round of hearings, are you coming to Vancouver?

7 COMMISSIONER KREIDLER: Mr. Arata asked if we
8 were planning to come to Vancouver on our second round of
9 hearings. It is yet it be finalized whether we will be
10 here. I know that at least there will be one hearing,
11 another one in Seattle, another one in Spokane. We've
12 had one other in Eastern Washington. We'll have another
13 one in Western Washington. Whether it's in Vancouver or
14 Bellingham is yet to be finalized at this point, but
15 there -- it remains to be seen effectively right now.
16 We're working with the schedule and trying to make sure
17 that we reach as many consumers as we possibly can as a
18 part of this conversion process.

19 MR. ARATA: Thank you.

20 COMMISSIONER KREIDLER: Surely.

21 Al Fallat?

22 MR. FALLAT: Thank you for the invitation to
23 address the panel. My name is Andrew Fallat,
24 F-a-l-l-a-t. I'm the chief executive officer of the
25 Foundation for Healthcare Quality, a not-for-profit

1 corporation here in the State of Washington. My purpose
2 tonight is to request that, in the event the OIC and the
3 Attorney General do approve the conversion, that the OIC
4 and Attorney General require that the charitable
5 foundation that be created support activities that
6 directly improve statewide the quality of clinical care.

7 In 1988 the Foundation for Healthcare Quality was
8 formed with the concurrence of the state government,
9 federal participants, physicians, payers, patients, and
10 hospitals. It was created with the single belief that
11 quality of care was improved when the all the partners in
12 the system had a trusted environment where they could
13 address their issues honestly and without fear of either
14 reprisal or in the midst of a bilateral negotiation. And
15 it was -- the purpose was to collect information
16 regarding clinical care.

17 And what was discovered in 1988 was that different
18 parties have different reasons or initiatives or
19 motivation, usually positive, but not considered in the
20 whole. Take for example a hospital that would have an
21 incentive to produce good quality care because it's the
22 right thing to do; it's what you're there to do in your
23 community.

24 But you also want to maintain your license. You
25 also want to satisfy Medicare certification, and so you

1 can spin off and do things that are strictly for Medicare
2 certification, not necessarily thinking about how it
3 might affect physicians in your community or how a payer
4 might be concerned or interested in that particular
5 activity. Not that it's counter to their interests, but
6 just not considered, so there would be unintended
7 consequences.

8 Hospitals maintain and physicians maintain quality
9 to manage their own risks and liability. It's a good
10 thing to do. But we've learned throughout the years, and
11 especially over the last decade, that total quality
12 management asks us to think outside of the box of our own
13 institution, to look at the broader system. A single
14 individual hospital or single payer trying to improve the
15 quality of care of the entire state can't do it on the
16 shoulders, on their own shoulders or on their own single
17 initiative.

18 And so in this state in 1988, we created the
19 Foundation for Healthcare Quality, which I've been a
20 board member of for some time, but only the CEO for a few
21 months. So I guess I'm speaking not so much from a
22 personal interest, but from an interest as a 25-year
23 citizen of this state to watch what the foundation has
24 done.

25 Today the Foundation for Healthcare Quality -- and

1 there could be other organizations similar that could be
2 sponsored by the foundation as well as other charitable
3 things. But the Foundation for Healthcare Quality
4 operates -- I believe the premier statewide clinical
5 improvement program known as Clinical Outcome Assessment
6 Program or COPE.

7 Every hospital in this state, with the concurrence
8 of the state government and all the payers and all the
9 hospitals and the physicians, all of those partners
10 gather together to create -- to define the kind of data
11 which would detail clinical quality as it relates to
12 cardiac surgery and cardiac care.

13 That information is shared in the state. It's
14 collected. It's scrubbed. It's analyzed for statistical
15 validity. And it's shared back with -- to the hospitals
16 and physicians so that they can identify areas where they
17 can improve the quality over time. Not for the
18 purposes -- there's no review for licensure. This is not
19 related to risk management. This is related to the
20 commitment that people have to improve the quality for
21 the patients in Washington State.

22 More -- we received requests to expand this program
23 and don't have the resources to do so. But if the
24 Insurance Commissioner and the Attorney General deem that
25 a healthcare foundation were to be established in this

1 state as a result of a conversion, if you were to see
2 that, I would like you to consider as a requirement that
3 that foundation sponsor and support statewide initiatives
4 to improve every day in the quality of care that's
5 provided by our valued physicians and hospitals.

6 Thank you very much.

7 COMMISSIONER KREIDLER: Thank you very much,
8 Mr. Fallat.

9 Call on Mike Becker.

10 MR. BECKER: Commissioner Kreidler, Deputy
11 Commissioner Odiorne, and Assist AG Fallis, my name, for
12 the record, is Mike Becker. I'm vice president of public
13 policy for Regence Blue Cross Blue Shield of Oregon.

14 I'm not here today to speak in favor of or against
15 the proposal by Premiera, and I had no intention of
16 speaking at all today except, after hearing the
17 testimony, there were a number of points or two points
18 that I thought definitely needed clearing up. And that
19 had to do with a comment made by Mr. Barlow and by
20 Mr. Timm in regard to the Regence' proposed affiliation
21 with the Illinois-Texas plans in the Blue Cross Blue
22 Shield system.

23 Mr. Barlow referred to that as a -- I believe the
24 term he used was a "merger," and Mr. Timm similarly
25 referred to it as a "merger and conversion." That is --

1 it couldn't be farther from the truth. No conversion was
2 proposed. Regence Blue Cross Blue Shield of Oregon and
3 other Regence plans are not-for-profit plans, as are the
4 Texas-Illinois plans. It is an affiliation that was
5 proposed in that transaction, virtually identical to the
6 affiliation that brought the Regence groups of plans
7 together originally in the mid-1990s.

8 So I just want to clear that up for the record that
9 this was not a conversion; it was not a merger; it was an
10 affiliation. It was called off because of the original
11 objectives of that affiliation, after further analysis,
12 could not be achieved. And the parties decided to
13 withdraw that proposal.

14 Thank you, Commissioner.

15 COMMISSIONER KREIDLER: Thank you very much,
16 Mr. Becker. I knew it was an affiliation. I certainly
17 did.

18 MR. BECKER: I knew you did.

19 COMMISSIONER KREIDLER: That does conclude the
20 list of individuals who'd indicated a desire to speak
21 this evening.

22 Let me just conclude by saying that this is the last
23 of four in a series of hearings that we held around the
24 state for very preliminary, initial wanting to here from
25 the public about the nature of this filing, from

1 questions and concerns that they had, and to begin the
2 process of trying to make sure that we develop -- the
3 information we need in order -- or I need in order to
4 make a decision as a judge on the issue of conversion,
5 and if I were to agree that a conversion was appropriate,
6 then what we should look to in the way of a charitable
7 activity that would be associated with that conversion
8 activity or filing.

9 Let me say that any information, Mr. Fallis from the
10 Attorney General's Office has pointed out, we also have
11 on the Insurance Commissioner's Web site a conversion
12 logo on there where, if you hit that, you're going to be
13 able to either introduce your own comments via e-mail, or
14 you can find out any of the information that has
15 currently been filed with our office, including all of
16 the documentation that we have received to date as part
17 of the formal filing from Premera Blue Cross relative to
18 their requested conversion and form filing.

19 All of that information, some close-to-2000 pages, I
20 believe, have been posted so far. More information will
21 be posted directly as a part of the filing as it comes
22 in. In addition to that, then, all the expert
23 information will be available. The transcript from this
24 meeting will be eventually posted on that Web site. I
25 believe we already have Seattle. I believe Spokane is

1 already posted. Shortly we will have the Tri-Cities
2 transcript of that hearing also posted on there.

3 Comments that are submitted to us via e-mail or
4 telephone or any other written, any communications we
5 receive, will also be posted and made an official part of
6 the record. I would urge you to go to that Web site if
7 you have any questions or would like to follow and track
8 the process as it goes forward.

9 I take this filing very seriously. It has been a
10 significant issue, as Mr. Odiorne pointed out, in other
11 states when this has taken place. It has significant
12 ramifications for the public. Decisions that are made
13 here are not infrequently going to be challenged in the
14 courts, either -- no matter what decision we make. So
15 it's an extremely important issue, and I take it
16 extremely seriously as we go forward.

17 The number-one issue that I am concerned about is
18 making sure that the consumers of the State of Washington
19 are not harmed. And until we have satisfactory
20 information to make a judgment on that issue, we won't be
21 bringing a judgment. A final decision, as the judge of
22 that, will be rendered by me.

23 I want to again extend my appreciation to you for
24 coming forward this evening, helping us to frame some of
25 the questions and concerns you have. As we go forward,

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1 you've assisted us in this process. We look forward to
2 being able to have another round of public hearings
3 before we have a formal hearing process in the process of
4 rendering of the final decision.

5 Thank you very much for coming this evening on
6 behalf of Mr. Rusty Fallis and his boss, Attorney General
7 Christine Gregoire, Attorney General for the State of
8 Washington, and Mr. Odiorne, my Deputy, and myself.

9 Thank you so much for coming this evening.

10 Meeting adjourned.

11 (Proceedings concluded at 7:02 p.m.)

C E R T I F I C A T E

I, SUE E. GARCIA, a duly authorized Court Reporter and
Notary Public in and for the State of Washington, residing at
Tacoma, do hereby certify:

That the foregoing proceedings were taken before me on
the 15th of October, 2002, and thereafter transcribed by me by
means of computer-aided transcription, that the transcript is a
full, true, and complete transcript of said proceedings;

That I am not a relative, employee, attorney, or
counsel of any party to this action or relative or employee of
any such attorney or counsel, and I am not financially
interested in the said action or the outcome thereof;

IN WITNESS HEREOF, I have hereunto set my hand and
affixed my official seal this October 17, 2002.

SUE E. GARCIA, CCR, RPR

GA-RC-IS-E305QB